

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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R 091800Z DEC 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 9474

C O N F I D E N T I A L LISBON 8492

E.O. 11652: GDS

TAGS: EINV, PO

SUBJECT: ITT INVESTMENT IN PORTUGAL

REF: STATE 291931

1. ITT EXECUTIVE STANLEY LUKE CALLED ON AMBASSADOR AND ECON  
COUSELOR DECEMBER 1 TO PRESENT HIS CORPORATION'S POSITION (AS  
OUTLINED REFTEL) AND TO SEEK EMBASSY ASSISTANCE. HE INITIALLY  
REQUESTED THAT PART OF PROPOSED USG LOAN TO PORTUGAL BE USED  
TO PAY ITT CLAIMS, BUT SUBSEQUENTLY INDICATED THAT SUCH A  
PROCEDURE WAS NOT FEASIBLE. AGREEING THAT A CALL ON PRIME  
MINISTER SOARES MIGHT REBOUND TO ITT'S DISADVANTAGE, LUKE  
ASKED INSTEAD THAT EMBASSY URGE SOARES TO TAKE A PERSONAL  
INTEREST IN ITT'S NEGOTIATIONS. HE STATED THAT HE WOULD BE  
MEETING WITH MINISTER OF INDUSTRY ROSA AND THE MINISTER'S  
ADVISOR MOURA VINCENTE TO PROPOSE THAT:

A. GOP AND ITT JOINTLY FINANCE \$150,000 EVALUATION OF  
COMPANY'S PORTUGUESE ASSETS.

B. GOP PURCHASE 49 PERCENT INTEREST IN ITT'S HOLDINGS,  
WITH TAX FREE PAYMENT TO BE MADE IN NEW YORK.

C. FOLLOWING THIS MINORITY PURCHASE, MIXED COMPANY  
SELL ITS PLANTS AND EQUIPMENT TO PORTUGUESE INSURANCE  
COMPANIES AND BANKS (I.E., TO GOP), SIMULTANEOUSLY SIGNING  
LONG-TERM LEASE CONTRACT FOR THESE FACILITIES. PROCEEDS  
FROM SALE WOULD BE USED TO PAY ITT INTER-AGENCY RE-  
CEIVABLES, LOANS, AND LOAN GUARANTEES TOTALLING \$18  
MILLION, AS WELL AS TO PROVIDE WORKING CAPITAL. AFTER  
THIRTY YEARS, LEASED PROPERTIES WOULD REVERT AUTOMATICALLY  
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TO COMPANY (I.E., SALE/LEASE OPERATION WOULD ACTUALLY

BE DISGUISED GOP LOAN).

D. ITT'S LARGE SHORT-TERM DOMESTIC BANK DEBTS BE  
CONVERTED INTO LONG-TERM LOANS.

2. MR. LUKE CALLED ON ECON COUNSELOR DECEMBER 3 TO  
REPORT HIS MEETINGS WITH MINISTER ROSA AND MOURA  
VINCENTE. HE STATED THAT PORTUGUESE REJECTED REQUEST  
THAT GOP BUY 49 PERCENT OF ALL ITT'S PORTUGUESE COM-  
PANIES. THEY PROPOSED INSTEAD THAT GOP MAINTAIN ITS  
CURRENT 30 PERCENT SHARE IN THE SHERATON, BUT 20 PERCENT  
OF STANDARD ELECTRICA AND OLIVA, ACQUIRE 51 PERCENT  
OF IMPRIMARTE, AND PURCHASE 100 PERCENT OF RABOR.  
PORTUGUESE OFFICIALS, WHO HAD PREVIOUSLY REJECTED  
PROPOSALS FOR PAYMENTS TO ITT IN NEW YORK, STATED THAT  
PERHAPS 50 PERCENT OF PAYMENT FOR GOP MINORITY SHARE  
PURCHASES COULD BE PAID ABROAD. THEY INSISTED, HOW-  
EVER, THAT REMAINING 50 PERCENT BE REINVESTED IN THE  
COMPANIES. THEY AGREED TO STUDY POSSIBILITY OF CON-  
VERTING COMPANY'S SHORT-TERM BANK DEBTS INTO LONG-TERM  
LOANS, BUT THEY CLAIM THAT ITT PROPOSAL FOR SALE/LEASE  
ARRANGEMENT WAS UNREALISTIC. MINISTER ROSA PROMISED TO  
RESPOND SUBSEQUENTLY TO ITT SUGGESTION FOR A SURVEY  
OF THE COMPANY'S PORTUGUESE ASSETS.

3. ECON COUNSELOR THANKED LUKE FOR LATTER'S REPORT AND  
TOLD HIM AMBASSADOR, DURING DECEMBER 2 MEETING WITH  
PRIME MINISTER, URGED THAT GOP EXPEDITIOUSLY RESOLVE  
PROBLEMS OF ITT AND OTHER FOREIGN FIRMS. LUKE STATED  
THAT HE WOULD PRESENT GOP PROPOSAL TO HIS BOARD OF  
DIRECTORS AND WOULD PROBABLY PROCEED WITH A SURVEY OF  
THE COMPANY'S ASSETS, WHETHER OR NOT GOP HELPED FINANCE  
THE STUDY. THE SURVEY AND A THOROUGH STUDY OF GOP  
COUNTERPROPOSALS, HE ESTIMATED, WOULD LIKELY TAKE  
APPROXIMATELY SIX WEEKS. THUS, ITT PROBABLY WILL TAKE  
NO FURTHER DECISIONS UNTILL LATTER HALF OF JANUARY. HE  
REAFFIRMED THAT HIS LOCAL LAWYER WOULD KEEP EMBASSY  
INFORMED.

4. COMMENT: ALTHOUGH GOP COUNTERPROPOSALS WILL  
PROBABLY NOT BE ACCEPTABLE TO ITT, THEY DEFINITELY  
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ARE A POSITIVE FORWARD STEP. THEY INDICATE GOP IS  
FINALLY FOCUSING ON ITT'S SITUATION AND IS ADOPTING  
A MORE REALISTIC ATTITUDE. THEY ALSO OPEN THE WAY  
FOR MEANINGFUL, THOUGH EXTENDED, NEGOTIATIONS WHICH MIGHT  
LEAD TO MUTUALLY ACCEPTABLE SOLUTION IN 1977. WE  
THINK LUKE IS ALSO INCLINED TO BE MORE FLEXIBLE IN  
NEGOTIATING WITH GOP, AND MORE UNDERSTANDING OF APPROPRI-  
ATE USG ROLE. AMBASSADOR MADE CLEAR TO HIM THE DAMAGE

DONE TO U.S. AND WESTERN INTERESTS BY LAST YEAR'S  
PRECIPITOUS ITT PULLOUT WITHOUT CONSULTING EMBASSY.  
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